

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

REVIEW REPORT
OF
DEPARTMENT OF EDUCATION
STATE OF INDIANA
June 1, 2001 to March 31, 2004

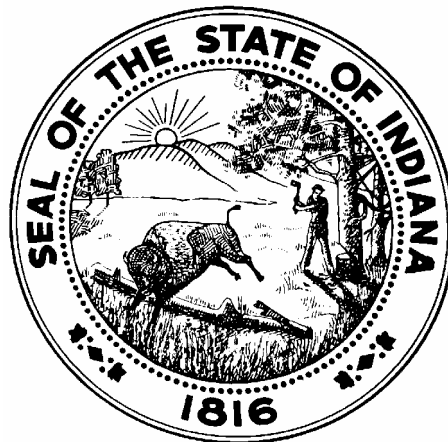


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AGENCY OFFICIAL

Office

Official

Term

Superintendent of Public Instruction

Dr. Suellen Reed

01-08-01 to 01-10-05



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF DEPARTMENT OF EDUCATION

We have reviewed the receipts, disbursements, and assets of the Department of Education for the period of June 1, 2001, to March 31, 2004. Department of Education's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Department of Education are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations except as stated in the review comments.

STATE BOARD OF ACCOUNTS

July 6, 2004

DEPARTMENT OF EDUCATION
REVIEW COMMENTS
March 31, 2004

DAILY DEPOSITS

As stated in prior Audit Reports B12369 and B17375, the Department of Education did not consistently deposit receipts collected for the Publications Division by the following business day after receipt of the funds. Additionally, we found that several divisions that collect receipts for workshops conducted by DOE do not consistently deposit these funds by the following business day after receipt.

Indiana Code 5-13-6-1(b) states in part: "All public funds . . . shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state not later than the business day following the receipt of the funds."

SDO FUND RECONCILIATIONS

The Department of Education (DOE) discontinued performing reconciliations of its Special Disbursing Officer (SDO) advances in June 2003.

Two reconciliations must be performed for the SDO fund each month. The bank statement for the checking account must be reconciled to the check register. Also, the check register must be balanced to the total SDO advance. These reconciliations must be formally documented. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 7)

CONTRACT UTILIZATION

We found that the Department of Education did not utilize contracts for the payment of consulting services as required. Instead, DOE processes these claims through their internal Request for Approval of Non-payroll Personal Services form, which DOE refers to as the "yellow sheet". The "yellow sheet" contains objectives and activities for "honorarium" services and department approval for authorization of such services.

Indiana Code 4-13-2-14.1 and 14.2 require that a contract to which a state agency is a party must be properly approved and in writing.

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

FIXED ASSET INVENTORY

The fixed assets of the Department of Education have not been consistently tagged upon receipt. Additionally, an annual physical inventory of assets owned has not been conducted.

Assets at the minimum level of \$500 must be tagged. Assets should be tagged upon receipt. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 10)

DEPARTMENT OF EDUCATION
REVIEW COMMENTS
March 31, 2004
(Continued)

Once a year, after receiving a Fixed Asset Master Listing, a physical inventory is to be taken and compared to the Master Listing and the agency's listing of assets from its asset control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 10)

INTERNAL CONTROL OVER REVENUE COLLECTIONS

Our testing of revenue collections by Department of Education divisions that collect fees for DOE sponsored workshops revealed deficiencies in the internal control structure for the collecting and accounting of these fees. There are no uniform procedures set by the accounting division, each division has it's own system. Most divisions do not issue receipts or maintain a cash journal to record money that has been received.

Indiana Code 5-13-5-1(a) states: "Every public official who receives or distributes public funds shall:

- (1) keep a cash book into which the public officer shall enter daily, by item, all receipts of public funds; and
- (2) balance the cash book daily to show funds on hand at the close of the day."

Each agency, department, institution or office should have internal controls in effect, which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

MISSING DEPOSIT

It was determined during the testing of revenue for the Department of Education's Publication Division that collections totaling \$100 were never deposited with the Treasurer of State or recorded by the Auditor of State. It appears upon further testing that this was an isolated incident. This collection was made up of several small checks and \$5 in cash. Through inquiry of a school district we found that one of the checks was on its outstanding check list. DOE should consider requesting the reissuance of these undeposited checks.

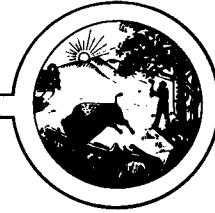
Collections must be deposited intact. Deposits are to be made within the next business day in compliance with IC 5-13-6-1. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 3)

Indiana Code 5-13-6-1(b) states in part: "All public funds . . . shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state not later than the business day following the receipt of the funds."

DEPARTMENT OF EDUCATION
EXIT CONFERENCE

The contents of this report were discussed on July 28, 2004, with Yvette Hauser, Director of Accounting; Risa Rignier, Director of Human Resources; Bill Riley, Budget Analyst; and Jeff Zaring, State Board of Education Administrator. The official response has been made a part of this report and may be found on Pages 7 through 9.

Indiana Department of Education



Division of Human Resources

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August 6, 2004

Mr. Charles Johnson, III
State Examiner
State Board of Accounts
Room E-418, IGCS
Indianapolis, IN 46204

Dear Mr. Johnson:

This letter is our response to the findings in your recent State compliance audit of the Indiana Department of Education for the period June 1, 2001, to March 31, 2004.

Finding: Daily Deposits

As stated in prior audit reports, the Department of Education (DOE) did not consistently deposit receipts collected for the Publications Division by the following business day after receipt of the funds. Additionally, we found that several divisions that collect receipts for workshops conducted by DOE do not consistently deposit these funds by the following business day after receipt.

Response

We will instruct all divisions that funds collected must always be either submitted to the Division of Accounting, or deposited in the State's account at National City Bank and the deposit information submitted to Accounting, no later than the following business day after receipt of the funds. All divisions will be instructed to have more than one individual knowledgeable of the process for timely receipt of funds to ensure that lapses do not occur during staff absences.

Finding: SDO Fund Reconciliations

The DOE discontinued performing reconciliations of its Special Disbursing Officer (SDO) account in June 2003.

Two reconciliations must be performed for the SDO fund each month. The bank statement for the checking account must be reconciled to the check register. Also, the check register must be balanced to the total SDO advance. These reconciliations must be formally documented.

Response

We do perform and document monthly reconciliations between the bank statement and the check register, but no longer perform the reconciliation between the check register and the total SDO advance.

The DOE began participating in the Travel Card program, authorized by the Department of Administration, in April 2003. While we appreciate the ability to limit financial burden to State travelers that the travel card provides, and will continue to use this program, several factors have made reconciliation between the check register and total SDO advance extremely difficult, and impossible some months. For instance, on more than one occasion, through no fault of DOE

Mr. Charles Johnson
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employees, charges for employees from other State agencies have been automatically deducted from our SDO account. And the actual charges deducted do not always agree with the amounts stated on the travelers' approved requests.

We are pursuing the possibility of on-line banking with Bank One so that erroneous deductions to our SDO account are realized immediately and corrections can be made sooner. Also, actual charges will be known the day they are deducted from our account. With the move to on-line banking, we will again begin the monthly reconciliation between and check register and the total SDO advance.

Finding: Contract Utilization

The Department of Education did not utilize contracts for the payment of consulting services as required. Instead, DOE processed these claims through their internal Request for Approval of Nonpayroll Personal Services form, referred to as the "yellow sheet". The "yellow sheet" contains objectives and activities for honorarium services and department approval for authorization of such services.

Indiana Code 4-13-2-14.1 and 14.2 require that a contract to which a state agency is a party must be properly approved and in writing.

Response

We do process numerous personal service contracts through the Department of Administration and the State's signature process. We also use our internal yellow sheet for numerous short term or intermittent personal services.

The current yellow sheet form was created by DOE in 1989; the purpose is to receive internal approval for payment of personal services covering a limited amount of time, or involving a limited reimbursement amount. Budget Agency approval of the yellow sheet was also required until 2000. At that time sole approval was given to the Agency head or designee. The criteria for using a yellow sheet were last revised in January 2000.

Because of the Department's increased responsibilities and limited staffing levels the services of outside consultants are necessary and our use of the yellow sheet form has increased. And because the criteria have not been revised for several years, we have exceeded the time and dollar amount limitations established in 2000.

The intent of the yellow sheet form is not to circumvent State guidelines or code. We will work with the Department of Administration to ensure that our internal yellow sheet is used when appropriate, but that written contracts are used when required.

Finding: Fixed Asset Inventory

The fixed assets of the DOE have not been consistently tagged upon receipt. Additionally, an annual physical inventory of assets owned has not been conducted.

Assets over a minimum level of \$500 must be tagged. Assets should be tagged upon receipt. Once a year, after receiving a Fixed Asset Master Listing, a physical inventory is to be taken and compared to the Master Listing and the agency's listing of assets from its asset control system.

Mr. Charles Johnson
August 6, 2004
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Response

In February 2004 the Department began the process of taking a physical inventory, ensuring that all fixed assets were properly tagged and listed, and any surplus items were properly disposed of and removed from the listing. We agree that a physical inventory had not been conducted on an annual basis. We will continue the process of ensuring that all assets are properly accounted for and our fixed asset listing is accurate and complete.

Finding: Internal Control Over Revenue Collections

Testing of revenue collections by DOE divisions that collect fees for DOE sponsored workshops revealed deficiencies in the internal control structure for the collecting and accounting of these fees. There are no uniform procedures set by the accounting division, each division has its own system. Most divisions do not issue receipts or maintain a cash journal to record money that has been received.

Response

We agree that uniform procedures for the collection of registration fees have not been established. All divisions do maintain a listing of fees received, but do not always issue receipts and do not always record their disbursements against the fees collected. The Division of Accounting will establish uniform procedures, in compliance with Indiana Code and the Accounting Manual, to be followed by all divisions when collecting, depositing, and making disbursements against registration fees collected for DOE sponsored workshops.

Finding: Missing Receipt


It was determined during the testing of revenue for DOE's Publications Division that a collection totaling \$100 was never deposited with the Treasurer of State or recorded by the Auditor of State. It appears that this was an isolated incident. This collection was made up of several small checks and \$5 in cash. Through inquiry of a school district we found that one of the checks was on its outstanding check list. DOE should consider requesting the reissuance of these undeposited checks.

Response

We agree with this finding, although because of the time elapsed and the small amount of the deposit, we are not going to request reissuance of the undeposited checks. All deposits are hand delivered to the State Treasurer's office and, as stated, this missing deposit was an isolated incident. We will track all deposits to verify that they are recorded by the Auditor of State to ensure that no future deposits are lost.

We appreciate the courteous and professional manner of the Board of Accounts' examiners, and the assistance they provided. Please contact me if you have any further questions or comments.

Sincerely,


for Dr. Suellen Reed
State Superintendent of
Public Instruction